

TO: Richard Medwar
FROM: Roy Anise
SUBJECT: Circle K Corp.

DATE: June 23, 1986

I have revised the discussion draft proposal to reflect the test designs outlined in our Monday, June 2, meeting. If this proposal is consistent with your understanding, I will develop a presentation for Circle K accordingly.

PROPOSAL

Circle K's apparent willingness to investigate the dynamics of convenience store cigarette merchandising via in-store testing presents a significant opportunity for both Circle K and Philip Morris. I have outlined a variety of possible test scenarios, all of which are of interest to PM and may or may not be of interest to Circle K. In addition, each test scenario has a preliminary proposed cost outlined in Appendix II.

Circle K's primary interest is in exploring the benefits of self-service PM carton fixtures in stores located in its Phoenix, Arizona, market. Possible interest may also exist in examining the value of counter displays and value centers.

In order to construct a test design which will address Circle K's interest as well as PM's, I propose that each merchandising variable (carton fixture, value center, counter displays) be identified as a separate test, each with either sequential or discrete store panels.

The following are the recommended test designs for Circle K. For a preliminary panel description, see Appendix I.

SELF-SERVICE CARTON FIXTURES

SITUATION REVIEW

Circle K currently sells cigarettes by the carton but has not aggressively promoted this type of sale. It is now committed to installing PM carton fixtures and signing a Plan A contract in all those stores which have qualifying volumes. Circle K is considering placement of the following:

<u>PM Fixture Description</u>	<u>Row Capacity</u>	<u>Manufacturers on Fixture</u>
L-Shape Endcap/Gondola Wrap Around	115 Rack Rows 124 Equivalent Rows	Philip Morris Lorillard Brown & Williamson Liggett American Brands?

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SELF-SERVICE CARTON FIXTURES (Continued)

OBJECTIVES

An attempt will be made to determine the impact PM's carton fixtures have on the following:

- Total cigarette volume by manufacturer and selected brand.
- Carton-to-pack sales ratio by manufacturer and selected brand.
- Inventory depth by manufacturer and selected brand.
- Coupon redemption.
- Average dollar transaction.
- Customer traffic count.
- Brands in distribution.
- Category and manufacturer economics.
- Brochure development for use as sales aid.
- PM program enhancement.
- Gas vs. non-gas store performance.
- Pilferage/shrink.

ISSUES

- PM Carton Fixture

The fixture Circle K is currently considering excludes R. J. Reynolds, and there exists some question as to whether American will be on the rack. This partial self-service position for the category may limit the expected benefits of total category self-service merchandising.

- Tourism/transient market

The population in the Phoenix market is believed to experience significant change as "snow birds" migrate in and out of the market. Historic monthly store-by-store ACV or cigarette volume data from Circle K and/or its supplier, McLane, will be required to determine the magnitude of this seasonality to facilitate matching and balancing of store panels. Circle K should be requested to begin building a historic database as soon as a test decision has been made, if they are not currently maintaining one. In addition, possible panel stores that are near outlets which sell cigarettes with no tax (Indian reservations) or stores located near universities, etc., should be identified and removed from panel.

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SELF-SERVICE CARTON FIXTURES

ISSUES (Continued)

- Pricing

In order to isolate the expected benefit of the carton fixtures from such extraneous effects as aggressive carton or pack pricing, Circle K should keep prices unchanged during the base and test periods. If Circle K should prefer to reduce prices, it should postpone implementing the price reduction for the initial phase of the test (approximately five months). After the initial phase to measure the impact of self-service carton fixtures, an additional phase of the test can be constructed to measure the benefit of a reduced price position in conjunction with self-service carton fixtures.

- Dollar Transaction and Customer Count

A possible benefit of self-service carton fixtures in convenience stores is that the expected incremental carton sales will drive up the average dollar transaction from the current \$2.05 trade class average. The possible increase in average dollar transaction may serve to increase the probability that convenience store consumers will modify their perception of what is appropriate to spend in a convenience store. Although not a test measurement, Circle K may realize other ancillary item and/or category opportunities if its customers can be moved from their current price predisposition.

In addition, an attempt can be made to measure any increase in customer traffic count attributable to attracting a carton customer not currently patronizing Circle K.

Both average dollar transaction and customer traffic count measurements are dependent upon type of data Circle K's registers record, as well as Circle K's willingness to share this data.

- Advertising

Circle K may be planning to support its entry into the self-service carton business through the utilization of local newspaper ads and/or window signage/banners. For the purposes of the test, we recommend that PM and Circle K support the test stores, as they intend to support all future qualifying stores.

- Gas/Non-Gas Stores

Approximately 65% of all Circle K stores sell gasoline, and it is likely that the store panels will consist of some gas and non-gas units. An attempt will be made to balance the panels on gas/non-gas stores as well as to segregate test results between these store types.

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VALUE CENTER

SITUATION REVIEW

Circle K's entrance into the self-service carton fixture business may likely be followed by interest in merchandising the price/value category on a PM value center. The self-service carton fixture test described above affords the opportunity to conduct sequential tests in the same test stores by adding PM value centers to PM carton fixtures and continuing to collect the full spectrum of data outlined above.

ISSUES

PM's Section 73 reports that Circle K has recently made a chain-wide decision not to sell carton cigarettes that are at a price point between generics and full priced brands. As a result, Players Lights are now only sold by the pack. If Circle K will not permit Players Lights to be displayed on PM value centers with Cambridge Lights, then the full benefits to PM of the displays cannot be determined.

COUNTER DISPLAYS

SITUATION REVIEW

Circle K stores are currently signed to a B-4 display as well as other manufacturer counter display programs with only partial participation by L&M.

In order to evaluate the benefit of PM counter displays, a rather unorthodox test approach must be employed. Instead of adding the displays and collecting data, displays must be removed to measure negative impact, and thus we can infer the economic value of counter displays based on their absence.

OBJECTIVES

To determine the impact of PM's B-4 counter display on the following:

- Total volume by pack and carton by manufacturer and selected brands.
- Pack-to-carton ratio.
- Category and brand economics.
- Out of stocks.
- Inventory depth.
- Brochure development for use as sales aid.
- Program enhancement.

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COUNTER DISPLAYS (Continued)

ISSUES

In addition to the issues outlined under the self-service carton fixture test, Circle K must obviously endorse the counter display removal, and PM must continue to compensate Circle K for display payments.



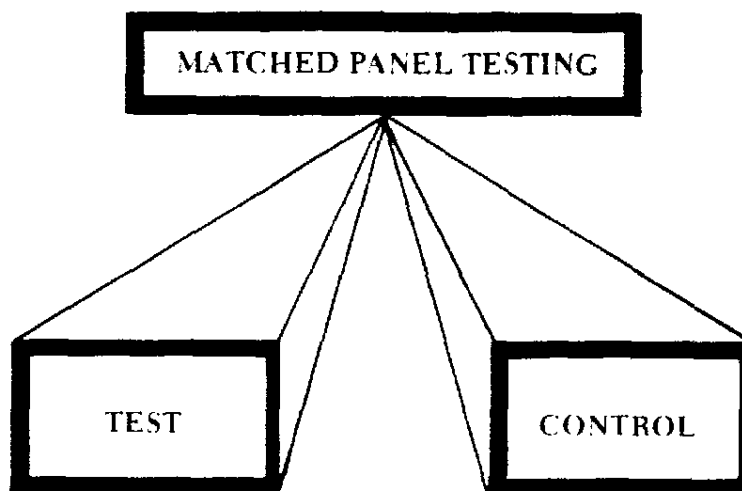
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Attachments

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APPENDIX I



PRELIMINARY TEST DESIGN

The before-after with control group design is appropriate for the type of tests described. Actual panel size will vary depending upon final test designs chosen.

- Balanced panel to consist of test and control stores:
 - 15 test stores
 - 15 control stores
 - 30 stores
- Stores will be balanced using:
 - ACV
 - cigarette volume
 - pack/carton ratio
 - gas/non-gas units
 - demography
 - seasonality
- Test periods:
 - I. Eight-week base period to collect inventory audit data to match and balance panel.
 - II. Hiatus period while merchandising change takes place.
 - III. Two to four-week period to allow initial changes to settle (no data are collected).
 - IV. Twelve-week test period (data collection).
 - V. Two to four-week data analysis and interpretation period.

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APPENDIX II

PRELIMINARY COST PROPOSAL

The following outline reflects the costs of conducting each test as described in the body of this proposal as separate and distinct.

<u>Test</u>	<u>Preliminary Cost</u>
Self-Service Carton Fixture and Value Control	\$58,800
Counter Displays	\$54,800
Value Center	\$30,300
Price Reduction	<u>\$32,600</u>
Total	<u>\$146,500</u>

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